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Exporter Guide

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Report Highlights:
The retail, hotel and restaurant, and food processing sectors in Mexico all present good opportunities for U.S. agricultural exports. All product categories are showing good to modest growth rates in 2003, with strong growth in sales of snack foods, processed fruits and vegetables, seafood, soybeans and products, wheat and wheat flour, and coarse grains.

Includes PSD Changes: No
Includes Trade Matrix: No
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Section I. Market Overview

Mexico's economy rebounded from a stagnant GDP growth rate in 2001 to a growth rate of about 1 percent in 2002. Projections for 2003 are for annual growth to be between 1.6 and 1.7 percent. This is in sharp contrast to the growth Mexico experienced in the late 1990's. Between 1996 and 2000, Mexico achieved annual economic growth of 5.5 percent, and retail sales increased almost 5 percent annually. Currently, the Mexican economy is showing mixed signals of recovery. Retail sales, which did not grow in 2002, have been strong in 2003, and are projected to grow 3.7 percent for the year. However, the official unemployment rate has grown to 3.5 percent, its highest level in eight years. Most experts are projecting that the Mexican recovery from the stagnant growth in 2001 will continue, but are tying this recovery to continued strengthening in the U.S. economy.

Weakness in the Mexican retail sector in 2002 negatively affected sales of certain high value U.S. products such as snack foods, the sales of which dipped almost 50 percent in 2002. Sales of U.S. consumer-oriented products overall fell 13 percent in 2002, though some high value products such as meats and fresh vegetables continued to reach record levels. Sales of intermediate agricultural products continued to grow, reaching record levels in 2002, reflecting the continued growth of Mexico's food processing sector.

Highlights for sales of U.S. Agricultural Fish and Forestry Products to Mexico from January to July, 2003:

- All product categories: bulk, intermediate, consumer ready, and forest and fish products are showing good to modest growth in export value in the first seven months of 2003, as compared to the same period in 2002.
- Consumer ready product sales are recovering from the dip in 2002, with an increase in sales of 8 - 9 percent from January to July 2003 as compared to 2002.
- Fish and seafood product exports for the first seven months of 2003 are up 27 percent in comparison with the same period last year, and sales in 2002 reached record levels.
- From January to July 2003 products showing a substantial increase in sales as compared to the same period in 2002 include: soybeans and products, cotton, coarse grains, wheat and wheat flour, snack foods and processed fruits and vegetables.

It is important to recognize that even in light of periodic variations, the overall direction of sales is positive. Increasing per capita income levels in Mexico and the effects of NAFTA have had a large impact on U.S. and Mexico trade. Total trade between Mexico and the United States jumped from $81 billion in 1993 to $233 billion in 2002. Almost 67 percent of overall Mexican imports come from the United States and 74 percent of Mexico's agricultural imports are from the United States. Almost all import duties have been lowered to zero for U.S. products as of January 1, 2003. Despite concerns that Mexico would move to protect its domestic producers by blocking full implementation of NAFTA, most products that were eligible entered Mexico at the duty-free rate without impediments in 2003. Mexico continues to provide a market full of opportunity for U.S. agricultural exports.

Demographic changes in Mexico also bode well for increasing exports. Women continue to join the workplace in larger numbers, which leads to increased demand for consumer-ready food products. In 1990 approximately 30 percent of women were employed, in 1997 this increased to 39.4 percent, and the most recently reported figure, 2000, indicate that 44.6 percent of women from the ages of 15-64 are working outside the home. This figure is generally higher in the eight cities with populations of over 1 million. In addition, about 50 percent of Mexico's population is between 15 and 44, a population that is moving to the cities in greater numbers, and is purchasing a larger proportion of their food requirements at large retail markets and convenience stores. These retail businesses represent the best sales venues for U.S. exporters. Traditional markets still have a large market segment, but are not as viable of an option for imported products because of their comparatively small size and limited storage and refrigeration space.

Advantages and Challenges for U.S. Exporters in Mexico

Advantages	Challenges
◆ The majority of U.S. products now enter Mexico tariff-free ◆ U.S. exporters no longer face imminent concerns about sweeping, cross-sector impediments to the full implementation of NAFTA, or a re-opening of NAFTA by the Mexican government ◆ Mexican consumers recognize U.S. brands and labels and associate U.S. made products with high quality and value ◆ The U.S. has strong reputation for consistency in the quality and supply of U.S. products among retail chains ◆ Population in urban centers in growing and the rate of employment among women is continuing to grow ◆ Proximity to U.S. market keeps transportation costs to Mexico low ◆ The Mexican peso continues to be stable in its relation to the U.S. dollar, making unexpected price fluctuations less likely ◆ Continued growth in almost all sectors of the processed food industry in Mexico, and increased investments from national and international based companies, including from the U.S., will raise the need for inputs ◆ The major retailers are developing increasingly sophisticated distribution systems, which will provide more space and better cold chain technology for high-value imports	◆ Mexico continues to explore individual product by product measures on a few sensitive products to protect the domestic industry, such as considering safeguard and anti-dumping cases ◆ Potential retaliatory action if the implementation of the U.S. Bio-Terror Act proves an impediment to Mexican exports to the United States ◆ Increasing competition from Mexican food processing companies ◆ Mexican consumers are very price conscious, and imported U.S. processed products in general are, in many cases, 15-40 percent higher in price ◆ Transportation and distribution methods inside Mexico make it difficult to serve and market in multiple regions ◆ Imported products are subject to Mexican quality standards (NOMs) and labeling requirements ◆ Phytosanitary and technical barriers and labeling requirements can cause border crossing problems and delays as Mexican import regulations can change rapidly and without notice ◆ Mexico has signed 10 trade agreements in the last decade covering 60 percent of the world's GDP, including Europe; thus increasing third country competition

Section II. Exporter Business Tips

Business culture

Personal relationships are the primary base of Mexican business relationships. Mexicans attach great importance to courtesy in all business endeavors. Many will not want to do business, regardless of the viability of the project, with someone who does not practice general courtesy or is considered rude or disrespectful. A warm handshake combined with conversation about the person's well being, family, or other similar topics prior to launching into any conversation related to business is considered a common courtesy. The concept that "time is money" should be left at the border, and though Mexican businesses are also conscious of the bottom line, courtesy and diplomacy are more important values to most Mexicans than getting immediately "down to business". In the face of a disagreement, Mexicans tend to be skilled at diplomacy and choose to avoid confrontation and loss of face. In a potential confrontation they strive to reach a consensus without having clearly defined winners and losers. These skills of diplomacy are important when approaching all forms of business in Mexico.*

Personally visit your Mexican clients in Mexico. If a Mexican client visits you in the United States, you are expected to wine and dine him. You will be accorded similar treatment when visiting Mexico.

*The reference for this section is a book by Eva Kras, Management in Two Cultures, Intercultural Press, Inc, 1995, which provides an excellent comparison of the business cultures in the U.S. and Mexico.

Entering the Mexican Market

The best way to understand the Mexican market is to visit the marketplace and to talk to buyers, retailers, distributors and other players in order to prepare a more effective entry strategy. U.S. exporters must do their research not only in terms of typical market research, but also finding appropriate business contacts and thoroughly reviewing Mexican import regulations in order to successfully seize market opportunities and overcome market challenges.

U.S. exporters should consider contacting local distributors/importers as an important early step in their efforts to establish themselves in the Mexican market. A good distributor should promote sales and make sure that the imported products are available at points of sale. It is essential to maintain close contact with your representative, especially regarding changes in import procedures and documentation.

An affordable way to investigate the market is to participate in and/or attend Mexican trade shows, particularly U.S. Pavilions organized at selected shows. A show can serve as a way to contact local distributors/sales agents, buyers and businessmen, and to become familiarized with local competition. In the case of new-to-market companies, be prepared to provide support for in-store and media promotions to familiarize consumers with your products. If possible, develop product information/promotional pamphlets in Spanish.

More information is available on specific import regulations in the GAIN report number MX2119 from August 2002. In addition, GAINS report number MX1205 includes information on the processes and procedures for exporting products across the U.S.-Mexican border. Furthermore, the U.S. Agricultural Trade Offices (ATO) of the U.S. Embassy with offices in Mexico City and Monterrey can provide general market and sector specific information, as well as assist U.S. exporters in identifying trade contacts and developing their marketing strategies in Mexico.

Section III. Market Sector Structure and Trends

A. Retail Sector

There are approximately 4,255 retail stores in Mexico selling food and beverages, a figure that includes outlets for major retail chains, government and convenience stores, but excludes "mom and pop" shops. Net sales growth in 2002 for the four leading retailers was as follows: Wal-Mart, 13.1 percent; Comercial Mexicana, –5.9 percent; Gigante, –2 percent; and Soriana 5.8 percent. Same-store sales growth among the top four retailers dropped to one percent in 2002 from an average of 3.4 percent in 2000.

Retailers invested approximately US$1.2 billion in 2002 to establish new outlets and increase floor space. Soriana plans to spend roughly US$240 million in 2003. Wal-Mart expects to invest US$615 million over the next 18 months to open 61 new outlets. Comercial Mexicana will also invest US$119 million during the same period. Morgan Stanley expects that leading retailers will expand at a nine percent rate in 2003.

The major retailers are developing increasingly sophisticated distribution systems. Comercial Mexicana recently opened a facility north of Mexico City that is handling approximately 80 percent of its dry goods. Wal-Mart launched its newest distribution center in Monterrey in July 2003 and plans to inaugurate a 2.1 million square foot facility for frozen goods in 2004. Texas-based HEB has plans to develop a 300,000-square-foot distribution center just north of Monterrey for both perishable and dry goods. Despite advances in logistics, retail stores still depend heavily on local distributors for supplying the shelves, especially for frozen food and perishables. When delivering to a distribution center, distributors pay a fee of 2.5 to eight percent to retailers.

Supermarkets and department stores continue to provide U.S. exporters with the best points of sale. Convenience stores are potentially excellent venues for U.S. product, though most chains sell relatively few imported goods. Traditional retail stores (mom and pop stores) serve a large number of Mexican consumers but offer little potential for selling imported products.

<u>Competition in supplying products to the retail sector</u>

Local producers are the main suppliers of consumer ready products. Mexico has a relatively strong food processing industry and leading Mexican brands have well-developed national distribution networks, are well-positioned in the market and enjoy high brand awareness with consumers. Some of these companies include Grupo Industrial Bimbo (bread products) considered to have one of the country´s best distribution systems, Nestle (food products in general), Herdez (food products in general), Sabritas (snack foods) Grupo Industrial Lala (dairy products) and Jugos del Valle (canned fruit juices).

There are also several American and multinational producers/importers in Mexico, including: Campbell's, Bacardi, General Mills, Gerber, Kellog's, Kraft Foods, Procter & Gamble, Frito Lay-Pepsico, Pilgrim's Pride, Purina, and Tyson.

Competition among importers depends on the category. Competition from Europe has increased as a result of the Mexico-European Union Free Trade Agreement, although meat and dairy products were excluded from the treaty. Canada, Australia and New Zealand export notable amounts of meat and dairy products to Mexico. New Zealand butter, for instance, is well-positioned in Mexico City retailers.

For additional information on the retail sector, please refer to Mexico GAINS report number MX3319, released in September 2003.

B. Food Processing Sector

According to the Mexican Secretary of Commerce business registry (SIEM), there are 7,065 food manufacturing companies processing a wide range of products including red meat, poultry, fish and dairy products, baked goods, snack foods, prepared fruit and vegetables, oilseed products, beverages, dry goods, condiments, specialized food ingredients and prepared meals. The industry produced $38.3 billion in 2002.

Trade statistics paint a favorable picture for U.S. suppliers to the food processing sector. Mexico imports from the United States almost five times as much raw material[1] for the industry as it exports. Moreover, imports rose 22 percent while exports fell almost 30 percent between 2000 and 2002. Although a strong peso during the period may account for some of this imbalance, the figures indicate a strong and growing dependence on foreign suppliers to the industry.

From 1999 to 2002, the industry grew by an average 8.1 percent per year in production value. The following sub-sectors experienced the highest growth in this period: Beverages (41.1 percent), Baked Goods (38.4 percent), Confection, (27.9 percent), Snack Foods (26.9 percent), Canned Foods (25.6 percent), Dairy (24.5 percent), Meat and Poultry (21.4 percent), Other (coffee, gelatins, yeast, syrup, concentrates, etc.) (17.3 percent), Sugar (14.7 percent), Animal Feed (13.7 percent), Fish and Seafood (12.4 percent), Flour and Grains (7.5 percent), Vegetable Oil (0.9 percent). The sector is expected to produce $41.3 billion in 2003.

For additional information on the food processing sector, please reference Mexico Gains report number MX3317, released in August 2003.

C. Hotel, Restaurant, Institutional (HRI) Sector

Mexico's hotel, restaurant and institutional food services (HRI) sector continues to provide export opportunities for U.S. suppliers. Total hotel and restaurant sales in Mexico were estimated at US$46 billion in 2002. Mexico has been hit by the worldwide tourism slump, but despite the fact that the number of visitors increased by less than one percent from 1999 to 2002, spending by tourists increased by 23 percent during the same period.

[1] Defined by selecting 70 categories of "food ingredients" from government statistics to determine the trade balance between the United States and Mexico for these products.

According to Mexico's Secretary of Tourism, there are 11,618 hotels with 469,488 rooms and over 200,000 restaurants. Although no official data exists on the institutional food service market in Mexico, industry representatives estimate that roughly six million meals are prepared each year.

U.S. suppliers continue to enjoy favorable market conditions as Mexican consumers become more discerning and American restaurant and hotel chains expand operations in Mexico. U.S. products are perceived to be of higher quality than those of local producers, particularly red meat, poultry and dairy products. American products dominate imports with the main competition coming from local firms that supply the bulk of HRI needs.

Hotels and Resorts

Mexico is the world's seventh largest tourist destination in the world, with 3.6 percent of all tourists. Arrivals from the United States represent more than 90 percent of total international tourism to Mexico. It is estimated that there were 100 million foreign visitors to Mexico in 2002 that spent close to US$9 billion. Of all food products consumed in hotels, approximately 15 percent is imported. The Mexican hotel industry derives approximately 29 percent of its total income from the sale of food and beverages.

According to the Mexican Secretary of Tourism total annual sales were approximately US$31 billion in 2002. The most important tourist destinations in Mexico are Cancun, Mexico City and Los Cabos. Mexico City has the largest number of hotels in the country, with 670 hotels and 47,000 rooms. Of these, 55 hotels were classified as "International Tourism Quality" with a total of 14,570 rooms. Other important business and tourist destinations are the cities of Monterrey and Guadalajara and resorts on the coasts of the states of Quintana Roo, Baja California, and Guererro. Four and five star hotels make up almost 40 percent of the rooms available around the country. This is significant since imported food products are more likely to be used at upscale hotels catering to foreign travellers.

Restaurants

According to CANIRAC, the National Restaurant Association, the Mexican restaurant industry comprises 221,249 establishments. In 2002, total restaurant sales approached US$15 billion, nearly 2.5 percent of the Mexican GDP and 25 percent of tourism industry sales. Restaurants employ 800,000 workers, two percent of total employment.

Approximately 9,000 restaurants belong to the "organized" class of chains and large establishments, the remainder are small, family-owned operations. There are roughly 70 restaurant chains in Mexico, a category that includes the following three types: fast food; no-frills, family-oriented sit down; and international and clasical theme restaurants. Of the large restaurant operators in Mexico, Wal-Mart de Mexico and Corporacion Mexicana de Restaurantes stand out with 262 and 92 outlets, respectively.

Well-known U.S. restaurants such as The Palm, China Grill and Le Cirque can be found at the finer Mexican hotels. The exacting standards of U.S. chains oblige Mexican operators to source many U.S. products. By contrast, chains such as Grupo Anderson´s (Señor Frogs, Carlos and Charlies) that also cater to national and international visitors source most of their product nationally and only import liquor, wine, and sauces.

The many fast food franchises that entered Mexico in the 1980's have continued to expand. New shopping malls around the country feature food courts with well-known U.S. fast food franchises. Grupo Yum, owner of KFC and Pizza Hut, has 410 outlets around the country and may soon bring Taco Bell, Long John Silver and A&W. Another group, ECE, owns 18 restaurants, mostly in tourist areas, that include Hard Rock Cafe, Planet Hollywood, Rainforest Café and others. Other smaller fast food companies include: Arby`s, Carl`s Jr. Hamburgers, Papa John's Pizza, Sushi Itto, and Taco Inn.

For additional information on the HRI sector, please refer to the Mexico GAINS report number 3318, released in September 2003.

Section IV. Best High Value Product Prospects

U.S. consumer-oriented agricultural product exports to Mexico fell 13.5 percent in 2002, but grew over eight percent from January to July 2003, as compared with the first seven months of the previous year. In addition, sales of intermediate products grew to record levels in 2002, due to the burgeoning food and feed processing sector in Mexico. Listed below are the products that have experienced the fastest growth in recent years, and we project continued growth in Mexico for these products.

U.S. EXPORTS OF CONSUMER READY AND INTERMEDIATE AGRICULTURAL PRODUCTS

(In Thousands of U.S. Dollars; Calendar Year Information)

Product	2000	2001	2002	Percent Growth in 2003*
Fish & Seafood and products, edible	50,176	65,074	65,396	28
Processed Fruits and Vegetables	256,798	314,920	329,832	21
Dairy Products	164,169	248,607	201,737**	12
Snack Foods	234,898	331,431	157,813**	33
Red Meats (fresh/chilled/frozen)	845,944	1,036,953	1,077,403	-1
Red Meats (prepared/preserved)	60,817	68,947	82,260	18
Poultry Meat	239,388	257,987	173,825**	15
Eggs and products	18,881	13,314	19,346	37
Soybean Meal	28,848	52,166	86,757	67
Soybean Oil	40,320	37,265	98,071	17
Wheat Flour	3,220	3,506	5,700	110

*Indicates the percent growth shown in the first seven months of 2003 as compared to the same period in 2002.
**ATO Mexico believes the decrease in sales in 2002 was due to the retail sector's overall weakness and believes sales of these products will increase long-term; for poultry meat the decrease was due a sanitary barrier that has been lifted.

Section V. Key Contacts and Further Information

The primary mission of the U.S. Agricultural Trade Office (ATO) in Mexico City is to assist in the market development and promotion of U.S. food and agricultural products in the Mexican market. There are a wide variety of activities and services that the ATO, along with other private sector representatives called "cooperators," make available to help develop U.S. agricultural interests in Mexico. If you have any questions or comments regarding this report or need assistance exporting U.S. food and beverage products to Mexico, please contact the ATOs in Mexico City or Monterrey.

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Appendix I. Statistics

Table A. Key Trade and Demographic Information

Agricultural Imports from All Countries (1)	$11,627 million
U.S. Market Share (1)	74 percent
Consumer Food Imports from All Countries (1)	$5,659 million
U.S. Market Share (1)	68 percent
Edible Fishery Imports from All Countries (1)	156 million
U.S. Market Share (1)	34 percent
Total Population/Annual Growth Rate (2)	104.908 million/ 1.43 percent
Urban Population	78.76 million
Number of Metropolitan Areas (3)	8
Size of the Middle Class (4)	31 percent of total population
Per Capita Gross Domestic Product (5)	$6,030
Unemployment Rate	3.5 percent
Percent of Female Population Employed (6)	44.6 percent
Exchange Rate	US$1 = $10.7 Mexican Peso (9/03)

Footnotes
(1) United Nations Statistical Data
(2) Figures from July 2003, CIA fact book estimates
(3) Population in excess of 1,000,000; in order from largest: Mexico City, Guadalajara, Monterrey, Puebla, Leon, Toluca, Ciudad Juarez, Tijuana
(4) This measurement is from 1996, measuring the percent of the population in the middle two income brackets, no more recent income bracket information has been published
(5) International Monetary Fund, 2001
(6) Calculated using total number of women 15 –64 years old: 30,255,456 and total number of women employed: 13,490,915, Source INEGI 2000

Table B. Consumer Food and Edible Fishery Product Imports

Mexico Imports (In Millions of Dollars)	Imports from the World 1999	2000	2001	Imports from the U.S. 1999	2000	2001	U.S. Market Share 1999	2000	2001
CONSUMER-ORIENTED AG TOTAL	3524	4769	5659	2460	3249	3851	70	68	68
Snack Foods (Excl. Nuts)	171	233	296	96	133	165	56	57	56
Breakfast Cereals & Pancake Mix	27	30	36	24	29	34	90	96	93
Red Meats, Fresh/Chilled/Frozen	879	1279	1515	751	1012	1156	85	79	76
Red Meats, Prepared/Preserved	102	145	192	96	138	177	95	96	93
Poultry Meat	199	259	300	196	249	280	99	96	93
Dairy Products (Excl. Cheese)	442	566	737	142	139	232	32	25	31
Cheese	99	143	191	25	50	69	25	35	36
Eggs & Products	23	27	24	22	27	23	98	98	93
Fresh Fruit	268	417	481	195	306	349	73	74	73
Fresh Vegetables	70	112	119	57	97	104	81	87	88
Processed Fruit & Vegetables	242	320	354	158	204	231	65	64	65
Fruit & Vegetable Juices	20	39	42	15	32	34	74	82	81
Tree Nuts	56	56	59	48	47	50	85	83	85
Wine & Beer	76	89	113	28	36	46	37	41	41
Nursery Products & Cut Flowers	43	47	51	32	33	33	74	70	65
Pet Foods (Dog & Cat Food)	67	89	118	66	87	114	99	98	97
Other Consumer-Oriented Products	740	918	1031	508	629	753	69	69	73
FISH & SEAFOOD PRODUCTS	124	117	156	32	42	53	26	36	34
Salmon	5	7	8	1	2	2	18	24	19
Surimi	1	1	3	1	1	1	59	65	39
Crustaceans	21	29	47	7	14	17	35	48	36
Groundfish & Flatfish	19	28	35	7	7	9	36	24	27
Molluscs	9	9	8	4	4	3	42	40	34
Other Fishery Products	70	43	56	13	16	22	19	37	39
AGRICULTURAL PRODUCTS TOTAL	8645	10292	11627	6569	7626	8606	76	74	74
AG. FISH & FORESTRY TOTAL	9385	11294	12698	7076	8247	9170	75	73	72

Source: FAS' Global Agricultural Trade System – UN Data

Table C. Top 15 Suppliers of Consumer Foods and Edible Fishery Products

MEXICO IMPORTS

CONSUMER ORIENTED AG IMPORTS

In thousand (USD)	1999	2000	2001
United States	2459678	3248593	3851191
Canada	178610	270282	373673
Chile	152115	208809	272211
New Zealand	131488	143800	246516
Poland	15618	48146	96166
Australia	53761	78069	95987
Argentina	28487	45951	88441
Germany	52743	112813	67099
Netherlands	56441	63923	66386
Spain	37030	50250	65042
Uruguay	20510	49325	46464
France	57770	54957	41890
Ireland	35030	63398	37085
Belgium	16753	27665	33989
Brazil	20993	27486	27607
Other	206600	275238	249024
World	3523668	4768741	5658818

FISH AND SEAFOOD IMPORTS

In thousand (USD)	1999	2000	2001
United States	32251	42479	53378
Chile	7540	15690	16540
Spain	5052	7887	8901
Ecuador	41200	6331	8755
Venezuela	2845	2294	8490
China	2119	4084	7130
Norway	5503	3555	7005
Costa Rica	542	1650	6850
Canada	3722	6463	6535
Taiwan	4506	3340	4418
India	1749	2716	4282
Korea	1959	865	2293
Argentina	3130	3101	1970
Japan	731	1370	1763
Colombia	114	289	1521
Other	11142	14921	16466
World	124117	117052	156303

UN Data